

## Message Text

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ACTION COME-00

INFO OCT-01 EUR-12 ISO-00 CIAE-00 EB-07 INR-07 LAB-04

NSAE-00 PA-02 SIL-01 USIA-15 PRS-01 /050 W

-----121128Z 016128 /21

R 120830Z JAN 77

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 9206

UNCLAS SECTION 1 OF 3 BELGRADE 159

EO 11652: NA

TAGS: BEXP YO

SUBJ: COUNTRY COMMERCIAL PROGRAM: COMMERCE EXHIBIT AT 1977 NOVI

SAD FAIR

SUMMARY: EUROPEAN OFFICES OF U.S. FIRMS CONFIRM SOUNDNESS OF EXPORT PROMOTION CAMPAIGN AND EFFECTIVENESS OF COMMERCE RECRUITMENT, VIGOROUSLY BACKED UP BY EMBASSY, OF FOOD PROCESSING/PACKAGING (FPP) EQUIPMENT EXHIBITION FOR MAY 1977 NOVI SAD FAIR. OF 50 FIRMS CONTACTED BY SUPPORT COMMERCE RECRUITMENT EFFORT, SEVENTEEN FPP FIRMS AS WELL AS EIGHT AGRICULTURAL EQUIPMENT FIRMS INITIALLY EXPRESSED STRONG INTEREST IN THE EXHIBIT. PROSPECTIVE EXHIBITORS INCLUDE GOOD PROPORTION NEW-TO-MARKET FIRMS. HOWEVER, RECENT FOLLOW-UP CONTACTS REVEAL THAT A GOOD NUMBER OF FIRMS ARE BACKING AWAY BECAUSE TERMS OF PARTICIPATION IN THEIR VIEW DO NOT ALLOW ENOUGH SPACE AT JUSTIFIABLE COST. THIS STRONG AND RATHER WIDESPREAD NEGATIVE REACTION, UNLESS CORRECTED, WILL LIMIT VIABILITY OF EXHIBIT. ACTION REQUESTED: EMBASSY RECOMMENDS USDOC SETTERMS WHICH, WHILE PRESERVING FINANCIAL INTEGRITY OF EXHIBIT, WILL PROVIDE ADEQUATE EXHIBITION

UNITS AT ACCEPTABLE COST. URGENT DECISION CALLED FOR TO REGAIN MOMENTUM OF COMMERCE EXPORT PROMOTION CAMPAIGN CONSIDERED IMPORTANT BY U.S. FIRMS. END SUMMARY.

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1. TO PROVIDE MAXIMUM SUPPORT FOR COMMERCE RECRUITMENT FOR THE NOVI SAD EXHIBIT, THE EMBASSY HAS REORDERED ITS WORK PRIORITIES AND, IN CLOSE COORDINATION WITH COUNTRY MARKETING MANAGER, CONTACTED EUROPEAN REPRESENTATIVES OF U.S. FIRMS WHICH WERE INDICATED TO USDOC AS HAVING AN IMPORTANT INFLUENCE ON THE DECISION TO PARTICIPATE. THE BULK OF THE EMBASSY CONTACTS,

WHICH INVOLVED TELEXES AND PHONE CALLS TO OVER 50 FIRMS, WERE MADE OUTSIDE OF YUGOSLAVIA, BECAUSE U.S. FIRMS ARE NOT ALLOWED SALES OFFICES HERE AND MOST OF THE PROSPECTIVE EXHIBITERS LACK YUGOSLAV REPRESENTATION.

2. IN THE FIRST ROUND OF CALLS, REPRESENTATIVES OF SEVENTEEN FIRMS EXPRESSED STRONG INTEREST IN PROCURING PAVILION SPACE IN U.S. EXHIBITION, PRIMARILY FOR THE PURPOSE OF DISPLAYING LINES OF FOOD PROCESSING AND PACKAGING EQUIPMENT WHICH IS THE MAIN EMPHASIS OF THE CAMPAIGN IN THE COUNTRY COMMERCIAL PROGRAM. ELEVEN OF THE COMPANIES QUALIFY AS NEW-TO-MARKET FIRMS UNDER USDOC GUIDELINES. THE POTENTIAL EXHIBITORS NOT ONLY REPRESENT A GOOD MIX OF EQUIPMENT MANUFACTURERS BUT ALSO A DESIRABLE RATION OF VETERAN AND NEW-TO-MARKET FIRMS WHICH, EMBASSY FORECASTS, COULD MAKE GOOD INROADS INTO BUSINESS OPPORTUNITIES BEING SEIZED BY NON-U.S. FIRMS IN THIS EXPANDING MARKET.

3. AS AN ADDITIONAL RESULT OF COMBINED USDOC/EMBASSY RECRUITMENT EFFORT, OFFICIALS OF EIGHT OTHER FIRMS SAID THAT THEY WOULD LIKE TO EXHIBIT FARM EQUIPMENT IN USDOC SPACE OUTSIDE THE PAVILION. THIS NUMBER IS MORE THAN CAN BE PRESENTLY ACCOMMODATED UNLESS ADDITIONAL OUTSIDE SPACE IS LEASED.

4. THE INTEREST EXPRESSED BY A SUBSTANTIAL NUMBER OF NEW-TO-MARKET FIRMS IN THE U.S. EXHIBITION DEMONSTRATES THE SOUNDNESS OF THE DECISION TO INCLUDE THIS EVENT IN THE COUNTRY COMMERCIAL PROGRAM, AND IT ALSO CONFIRMS THE EFFECTIVENESS OF THE USDOC/  
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EMBASSY RECRUITMENT CAMPAIGN. YUGOSLAV REACTION ALSO AUGURS WELL, AS REFLECTED NOT ONLY IN THE MANY INQUIRIES WHICH LOCAL ENTERPRISES HAVE MADE REGARDING POTENTIAL FAIR EXHIBITORS, BUT ALSO IN THE HIGH LEVEL OF COOPERATION WHICH THE EMBASSY HAS RECEIVED IN ORGANIZING A TECHNICAL SEMINAR ON U.S. PRODUCTIVITY AND TECHNOLOGY IN FOOD PROCESSING TO BE HELD APPROXIMATELY ONE MONTH BEFORE THE FAIR. THE U.S. DEPARTMENT OF LABOR, AT THE EMBASSY'S SUGGESTION, WILL PUT ON THIS EVENT WITH THE CO-SPONSORSHIP AND FULL SUPPORT OF THE YUGOSLAV CHAMBER OF ECONOMY. THIS SEMINAR WILL ACQUAINT INFLUENTIAL DECISION-MAKERS WITH THE LATEST U.S. FOOD PROCESSING TECHNOLOGY, AND THUS HELP LAY THE GROUNDWORK FOR AN IN-DEPTH NATIONAL PROMOTIONAL CAMPAIGN TO ASSIST U.S. EXHIBITORS AT THE FAIR.

5. IN CONTRAST TO THIS AUSPICIOUS BEGINNING, THE EMBASSY FOUND IN FOLLOW-UP CONTACTS IN WEEK OF JAN 3 THAT FIRMS DEVELOPED CONSIDERABLE NEGATIVE REACTION AFTER EVALUATING TERMS OF

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PARTICIPATION. ENCOURAGED BY THEIR FIRST REACTION, AND IN THE AIM OF HELPING THE EXHIBIT MORE THAN PAY FOR ITSELF, THE EMBASSY HAS BEEN PRESSING FIRMS TO PAY THE MAXIMUM FEE ALLOWED BY COMMERCE FOR EXHIBIT SPACE. (2,000 FOR NEW-TO-MARKET FIRMS AND \$3,500 FOR OLD-TO-MARKET FIRMS FOR EACH 12 SQUARE METER BLOCK OF EXHIBIT SPACE, AS IN DEVELOPED COUNTRIES). HOWEVER, A LARGE NUMBER OF BUSINESSMEN, PARTICULARLY REPRESENTATIVES OF NEW-TO-MARKET FIRMS, SAID THAT TERMS WOULD NOT ALLOW SUFFICIENT EXHIBIT SPACE AT JUSTIFIABLE COST.

6. THE REQUIRED FINANCIAL CONTRIBUTION IS A PARTICULAR PROBLEM FOR SEVERAL EXHIBITORS REQUIRING ENOUGH INSIDE SPACE TO DISPLAY LINES OF FOOD PROCESSING AND PACKAGING EQUIPMENT. THIS IS ESPECIALLY DISTURBING SINCE EMBASSY MARKET RESEARCH SHOWS THAT FIRM OFFERING ENTIRE LINES OF EQUIPMENT HAVE THE BEST SALES PROSPECTS IN THE FOOD PROCESSING AND PACKAGING EQUIPMENT MARKET. SIX FIRMS, ALL EXCEPT ONE BEING NEW-TO-MARKET, INDICATED THAT THEY WOULD NEED AT LEAST 30 SQUARE METERS OF SPACE AND THREE, ALL NEW-TO-MARKET, PRELIMINARILY REQUESTED 60 SQUARE METERS.

7. ALL BUT TWO OF THE FIRMS WANTING 30 SQUARE METERS SAID THAT THE COST OF PARTICIPATING IN THE U.S. EXHIBITION COULD NOT BE JUSTIFIED EVEN IN VIEW OF THE ADDITIONAL PROMOTIONAL SERVICES WHICH THEY WOULD OBTAIN. SOME ALSO EXPRESSED SURPRISE AT THE HIGH COST OF EXHIBIT SPACE BECAUSE THEY HAD PARTICIPATED IN FAIRS IN OTHER EASTERN EUROPEAN COUNTRIES FOR FAR LESS AND KNOW  
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THAT YUGOSLAV FAIR COSTS ARE SUBSTANTIALLY BELOW THOSE OF WESTERN

EUROPEAN COUNTRIES. TWO OR THREE NEW-TO-MARKET FIRMS HAVE INDICATED THAT THEY MIGHT CONSIDER INDIVIDUAL PARTICIPATION AT THE FAIR BECAUSE OF LOWER COSTS THOUGH THEY BELIEVE THE U.S. EXHIBITION TO BE A MORE EFFECTIVE PROMOTIONAL VEHICLE. (IN COMPARISON TO \$5,000 EMBASSY REQUESTING FROM NEW-TO-MARKET FIRMS AND \$8,750 FROM THOSE OLD-TO-MARKET, FAIR AUTHORITIES TELL PROSPECTS THAT COST OF EXHIBITING AT NOVI SAD FOR AN INDIVIDUAL FIRM USING 30 SQUARE METERS OF INSIDE SPACE IS APPROXIMATELY \$1,600, OF WHICH \$600 GOES FOR SPACE RENTAL AND ABOUT \$1,000 FOR BOOTH DESIGN, CONSTRUCTION AND RELATED EXPENSES.) MOST, HOWEVER, REGARD USDOC BACKING IN THIS ENVIRONMENT AS QUITE IMPORTANT. SEVERAL NEW-TO-MARKET FIRMS SAID THAT SINCE THEY COULD NOT COPE WITH TERMS FOR PARTICIPATION IN THE U.S. EXHIBITION, AND THUS OBTAIN NEEDED PROMOTIONAL SUPPORT AND MARKETING GUIDANCE, THEY HAD DECIDED TO DEFER ENTERING THE MARKET.

8. EMBASSY HAS SUGGESTED TO SOME FIRMS THAT THEY EXHIBIT ONLY SCALE MODELS OF EQUIPMENT, BUT MOST FEEL THAT DISPLAYING AN OPERATING PROTOTYPE IS MOST EFFECTIVE WAY TO PROMOTE THEIR EQUIPMENT. MANY FIRMS ALSO WOULD LIKE TO TAKE ADVANTAGE OF THE SPECIAL FIAR FOREIGN EXCHANGE ALLOCATIONS WHICH OBVIATE NEED FOR USUAL IMPORT PERMISSIONS FOR EQUIPMENT ACTUALLY DISPLAYED. ASIDE FROM DIRECT BENEFIT OF SALES OFF THE FLOOR, THIS WOULD PLACE EQUIPMENT WITH YUGOSLAV USERS FOR DEMONSTRATION EFFECT ON OTHER INTERESTED CUSTOMERS AFTER FAIR.

9. OUTLOOK. A SIGNIFICANT NUMBER OF PROSPECTIVE EXHIBITORS FOR NOVI SAD ARE EUROPEAN SUBSIDIARIES OR REPRESENTATIVES OF U.S. FIRMS, MOST NEW TO THE DEVELOPING YUGOSLAV MARKET. THEIR NEGATIVE REACTION AGAINST PARTICIPATION TERMS PROPOSED BY THE EMBASSY IS SUFFICIENTLY STRONG AND WIDESPREAD THAT THE FOLLOWING ALTERNATIVES HAVE EMERGED:

A. PROCEED WITH AN EXHIBITION UNDER FEE SCHEDULE THE EMBASSY HAS PRESSED. THIS WOULD RESULT IN RECRUITMENT OF PERHAPS EIGHT TO TEN FIRMS FOR SPACE INSIDE THE PAVILION. EMPHASIS OF UNCLASSIFIED

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COMBINED INSIDE AND OUTSIDE EXHIBIT WOULD BE ON AGRICULTURAL MACHINERY AND IMPLEMENTS INSTEAD OF FOOD PROCESSING. CONSEQUENTLY EXHIBITION WOULD MAKE ONLY MINOR CONTRIBUTION TO MEETING CCP CAMPAIGN TARGETS IN FOOD PROCESSING EQUIPMENT MARKET. DEPENDING ON THE MIX OF NEW AND OLD-TO-MARKET FIRMS, ENTRANCE FEES MAY NOT COVER THE COST OF PAVILION RENTAL.

B. STRUCTURE THE FEE SCHEDULE IN A WAY THAT CAN BE BORNE MORE READILY BY U.S. FIRMS, ESPECIALLY THOSE REQUIRING ENOUGH SPACE FOR LINES OF EQUIPMENT. IT IS ANTICIPATED THAT A RATE WHICH FIRMS CONSIDER MORE APPROPRIATE FOR THIS DEVELOPING MARKET COULD ATTRACT 15-20 EXHIBITORS INCLUDING 2 OR 3 EXHIBITORS OF AGRICULTURAL EQUIPMENT WHO CANNOT PRESENTLY BE ACCOMMODATED

IN ADJACENT OUTSIDE SPACE. SINCE THE MAJORITY OF EXHIBITORS  
WOULD BE DISPLAYING FOOD PROCESSING AND PACKAGING EQUIPMENT,  
THE EXHIBITION COULD PROVIDE A MAJOR CONTRIBUTION TO A  
FEATURED GOAL

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INFO OCT-01 EUR-12 ISO-00 CIAE-00 EB-07 INR-07 LAB-04  
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OF CCP CAMPAIGN. TOTAL REVENUE WOULD BE FAR HIGHER THAN UNDER  
ALHBRNATIVE (A), AND USDOC WOULD RECOVER MUCH MORE THAN DIRECT  
RENTAL COSTS.

10. RECOMMENDATION: TO REALIZE MAXIMUM COST-BENEFIT FROM MAJOR  
EXPORT PROMOOKON CAMPAIGN, EMBASSY RECOMMENDS THAT USDOC PURSUE  
THE SECOND ALTERNATIVE AND ESTABLISH PARTICIPATION TERMS WHICH  
SHOULD ATTRACT MORE VIABLE NUMBER OF PARTICIPANTS, GENERATE  
LARGER COMBINED EXHIBITOR FINANCIAL CONTRIBUTION, AND IMPROVE  
STRENGTH OF USG PROMOTIONAL SUPPORT. ADQUATE TELIS WOULD APPEAR  
TO BE:

(A) PROVIDE BASIC EXHIBIT UNITS UP TO 25-30 SQUARE METERS  
TO ACCOMMODATE NEW-TO-MARKET FIRMS IN PARTICULAR, BUT ALSO TO  
HELP ALL PARTICIPANTS TAKE ADVANTAGE OF SPECIAL FOREIGN  
EXCHANGE ALLOCATION FOR SALE OF DISPLAY EQUIPMENT WITHOUT AWAITING  
USUAL IMPORT PERMISSION;

(B) CHARGE NEW-TO-MARKET FIRMS USUAL \$2,000 ENTRANCE FEE  
FOR THE BASIC UNIT;

(C) GIVEN THAT YUGOSLAVIA IS A DEVELOPING COUNTRY (AND  
CERTAINLY NOT IN THE SAME CATEGORY AS INDUSTRIALIZED WESTERN  
EUROPEAN COUNTRY), CHARGE OLD-TO-MARKET PARTICIPANTS SAME BASIC  
\$3,000 FEE WHICH PREVAILS AT USDOC EXHIBITS ELSEWHERE THAN  
WESTERN EUROPE, AQPAN, AUSTRALIA, NEW ZEALAND, CANADA AND MEXICO;  
AND

(D) CHARGE FOR ADDITIONAL SPACE IN 10 SQUARE METER BLOCKS  
AT COST TO USDOC (\$20 PER SQUARE METER).

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EMBASSY WOULD APPRECIATE PROMPT GUIDANCE TO USE WITH EUROPEAN  
OFFICES MAKING PARTICIPATION DECISION ON BEHALF OF THEIR  
U.S. PRINCIPALS. YORK

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## Message Attributes

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**To:** STATE  
**Type:** TE  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009